



OFFICE OF INTERNAL OVERSIGHT SERVICES  
INTERNAL AUDIT DIVISION I

Reference: AUD-7-1: 31 ( 0035 /04)

13 January 2004

To: Mr. Ramiro Lopes da Silva,  
Humanitarian Coordinator, UNOHCI

From: Uwe Hain, Officer-in-Charge  
Internal Audit Division I, OIOS

A handwritten signature in dark ink, appearing to read "Uwe Hain", written over the printed name in the "From:" field.

Subject: **OIOS Assignment No. AF2003/21/5: UNOHCI liquidation – Financial management**

1. OIOS conducted a review of the financial activities within the United Nations Office of the Humanitarian Coordinator for Iraq (UNOHCI or the Mission) to assess the liquidation tasks remaining to be completed and to ensure that all related actions are addressed during the liquidation phase. The audit was based upon a review of the Mission Finance Section's structure and allocation of responsibilities to determine whether they adequately served the overall liquidation process, as well as testing the accuracy of selected transactions and verifying the internal controls.

**I. OVERALL ASSESSMENT**

2. The audit revealed that the financial liquidation progressed slowly, with the Mission's Finance Section being overwhelmed by processing day-to-day accounting duties, to the detriment of effective financial related liquidation tasks. In response to budget reductions, the Mission reorganized its administrative areas, including the Finance Section. However, the restructuring had a negative impact on the Mission's ability to address and conclude all outstanding financial issues prior to the turnover of field accounts. Furthermore, the administrative support provided by the Department of Peacekeeping Operations (DPKO) was not always timely. This became obvious by the end of November 2003, when the Mission had to operate for two weeks without a Chief Finance Officer (CFO) and with no approving authority.

3. Our comments on the Mission's financial liquidation activities are summarized in the following paragraphs. We would appreciate receiving your comments concerning the recommendations by 31 January 2004.

## **II. AUDIT FINDINGS AND RECOMMENDATIONS**

### **A. Financial Liquidation Planning**

4. The Field Mission Liquidation Manual spells out the following financial tasks associated with the liquidation phase: (i) clear receivables and payables account balances prior to liquidation; (ii) request to write-off any unrecoverable amounts; (iii) liquidate field obligations which are no longer required; (iv) reconcile Inter-Office Voucher (IOV), Inter-Office Billing (IOB) and bank accounts; and (v) collect any amount assessed by the Local Property Survey Board.

5. The Finance Section did not submit a formal liquidation work-plan covering the financial liquidation aspects, in accordance with the Chief Administration Officer's (CAO) Memoranda of Instruction -- Mission Winding Down and Liquidation of 16 June 2003 and 3 July 2003, respectively. As part of the Weekly Implementation Report mechanism, the Finance Section did submit factual information on the outstanding financial tasks. But it was only after the Liquidation Coordinator requested new work-plans from all the Mission's sections (in a "Gantt chart" format) that the Finance Section presented a formal work-plan, listing 17 liquidation tasks and their associated timeframes, on 20 November 2003.

6. It should be also noted that for several months, the Mission provided financial support to the Office for the Special Representative of the Secretary-General (OSRSG), as well as to the United Nations Assistance Mission in Iraq (UNAMI). The financial support included funds obligation and travel claims processing, vendors' payments, and staff entitlements computation and disbursement. Effective 17 November 2003, UNAMI assumed its own financial related tasks and UNOHCI's support effectively ceased.

### **B. Approving Authority**

7. In accordance with Financial Rule 105.6, approving officers are authorized by the Under-Secretary-General for Management to approve the recording of obligations and expenditures, and to be responsible for payments approval. The approving authority and associated responsibilities are assigned on a personal basis and cannot be delegated. Furthermore, an approving officer cannot exercise certifying or bank signatory functions.

8. From September 2003 onwards, the Mission was functioning with only one approving officer. (It should be also noted that the approving officer's prerogatives also extended to the United Nations Assistance Mission for Iraq's (UNAMI) operations). OIOS' review noted that the approving officer was processing daily approximately 30-40 vouchers with monetary values up to \$500,000 each.

9. In accordance with the Field Finance Procedures, the Mission's administration forwarded to the Financial Management Support Services (FMSS) a memorandum dated 27 August 2003, to

request assistance in granting approving authority to an additional staff member. The memorandum was accompanied with the "Request for Delegation of Authority Information Sheet". No response on these concerns was received from the FMSS, despite the Mission administration's repeated follow-up actions. The situation continued to deteriorate and became critical on 17 November when the only approving officer (who had also assumed the duties of the CFO) left the Mission for reassignment to a different duty station. A temporary replacement was only found on 2 December 2003, when a new CFO assumed his duties.

10. As previously reported by OIOS in Audit Report No. AF2003/21/2, the release of key UNOHCI administrative staff, including the CFO, without the Mission administration's prior concurrence, adversely impacted the liquidation exercise. Furthermore, failure to expeditiously address the Mission's administrative requests resulted in there being neither a CFO nor anyone else to exercise approving functions. In OIOS' opinion, this situation requires immediate attention from the DPKO, especially in the context of mission liquidation when critical time sensitive tasks are to be undertaken.

#### **Recommendation 1**

DPKO should develop an internal mechanism whereby a liquidating mission's concerns are communicated and addressed on a priority basis. Such a mechanism should include the submission of periodic reports to the Department's senior management detailing all outstanding issues related to the mission liquidation, together with an appropriate action plan (AF03/21/5/001).

#### **C. Cash and Bank Balances**

11. The Mission has the following bank accounts:

**TABLE 1: Mission Bank Accounts**

<u>Bank</u>	<u>Cash balance as of 31 Oct</u> <u>2003</u>
Chase Manhattan	\$55,615
Bank of Cyprus	\$65,582
Bank of Cyprus (CYP)	\$14,103
Rafidian Bank	\$665
Rafidian Bank (ID)	\$422

12. As shown in the table above, the Mission had a balance of \$1,087 with Rafidian, an Iraq-

based bank. After the war hostilities in Iraq, the bank closed its operations and the Mission took steps to transfer the related cash balances. The residual balance of \$1,087 should be recovered when the bank resumes its operations.

13. OIOS' review noted that bank reconciliations were up to date, and except for three minor balances, the outstanding items were mainly due to timing differences. The three items -- a credit balance of \$375 and two debit balances totalling \$197-- resulted from accounting errors and had been carried forward in the accounts since 2002.

14. According to the trial balance as of 31 October 2003, the cash imprest accounts show a balance of \$231,841 for Baghdad and \$102,750 for Erbil. It should be noted that beginning November 2003, the Baghdad cash imprest balance had been fully transferred to the Bank of Cyprus. As the Mission officially ceased its activities on 21 November 2003, the Erbil cash imprest level appears excessive. In anticipation of the low level of expenditures in the post-closure period, OIOS is of the opinion that the Mission should significantly reduce the level of the Erbil cash imprest account. Similarly, the petty cash balances of \$40,000 for Erbil and \$1,500 for Dohuk should be closed.

#### **Recommendations 2 - 4**

UNOHCI should:

- (i) Adjust the errors in the bank reconciliations (AF03/21/5/002);
- (ii) Reduce the level of the Erbil cash imprest account to match the foreseeable low level of expenditures in the post-closure period (AF03/21/5/003); and
- (iii) Immediately close the petty cash balances for Erbil and Dohuk (AF03/21/5/004).

#### **D. Accounts Receivable**

15. As of 31 October 2003, the UNOHCI trial balance showed a total of \$817,765 for accounts receivable, as follows:

**TABLE 2: Accounts Receivable Balances**

<u>Accounts Receivable</u>	<u>Balance as of</u> <u>31 August 2003</u>	<u>Balance as of</u> <u>30 September 2003</u>	<u>Balance as of</u> <u>31 October 2003</u>
Staff members	\$367,120	\$269,929	\$182,854
UN agencies & Missions	\$291,901	\$266,056	\$551,598
Advances to suppliers	\$78,646	\$77,996	\$79,773
Other (UN stamps)	\$3,540	\$3,540	\$3,540
<b>TOTAL</b>	<b>\$741,207</b>	<b>\$617,521</b>	<b>\$817,765</b>

16. OIOS' review indicated that most of the receivable balances aged within the six-month range. However, the Mission's recovery efforts consisted mainly in retaining an amount of \$500 as a reserve against undetermined personal expenses. No action had been taken to recover the receivable balances with respect to United Nations agencies, vendors, or staff members who had already departed the Mission and had receivable balances larger than \$500. Consequently, the auditors focused on the likelihood of recoverability for all receivable balances larger than \$1,000.

#### Staff members

17. In OIOS' view, the Mission was rather passive about recovering overpayments or advances for salaries from staff members. For example, even though a staff member (index no. 176565) left the Mission on 20 June 2003, no recovery action had been initiated for a receivable of \$5,365 representing overpayments of the staff member's Daily Subsistence Allowance.

18. Similarly, the auditors found that salary advances were not fully settled. During February 2003, due to the prevailing situation in Iraq, the Mission's administration advanced the equivalent of 3 months' salary for local staff, regardless of the type of contract and 10 days' Mission Subsistence Allowance for international staff. However, advances from salary were also disbursed to the local staff on temporary duty (TDY), hence outside the Mission area. As of 21 November 2003, some \$6,000 was still outstanding in respect of staff members on TDY. Furthermore, no recovery action had been initiated for two local staff members still on board in Baghdad (indexes nos. 862025 and 917266) with a cumulative balance of \$2,929. In addition, two account balances totalling \$12,852 and representing advances paid for burial expenses were not yet settled (indexes nos. 910572 and 288828).

#### Inter-Office Billing (IOB) and Inter-Missions Billing (IMB)

19. The account collects the IOB and IMB between peacekeeping missions and UN agencies. The OSRSG in Iraq and UNAMI represent the largest amounts, with a cumulative balance of more than \$300,000 as of 31 October 2003.

20. OIOS found that the receivable balance was overstated by \$332,400 as of 31 October 2003. During July 2003, the Mission received from United Nations Headquarters (Headquarters) a remittance of \$332,400 to cover the expenditures incurred on behalf of the OSRSG in Iraq. However, the Mission charged the OSRSG IOB account instead of recording the credit to the "Remittance from HQ" account. Since the settlement of the OSRSG balance is done through the "Interfund" account at Headquarters, OIOS is of the opinion that the remittance should have been recorded in the disbursement account and not charged against the accounts receivable. As of 31 October 2003, the outstanding receivable balance with OSRSG was \$429,131. Consequently, the Mission should request Headquarters to remit \$96,731 to cover the additional expenditures incurred on behalf of the OSRSG.

21. The balance of \$20,659 related to the United Nations Development Programme (UNDP) was incorrectly disclosed in the UNOHCI trial balance as of 31 October 2003. The balance represented a set-off between a debit balance of \$57,591 with UNDP Baghdad and a credit balance of \$36,932 with UNDP Kuwait. Notwithstanding the fact that the debit balance and the credit balance relate to two separate entities, setting off balances is against generally accepted accounting principles. Therefore, the amounts should be separately disclosed.

22. It should be also noted that the receivable balance from UNDP Baghdad is more than two years old and exclusively refers to telephone charges. Despite numerous follow-ups and requests for settlement by the Mission since 1999, UNDP disputes the charges and claims that some of them were directly settled with the providers and the remaining were paid in cash to UNOHCI Erbil or through UNOHCI Chase bank account. Since it seems unlikely that UNDP would settle these charges within the Mission's field liquidation timeframe, OIOS is of the opinion that comprehensive files should be prepared for each recovery case to be forwarded to the UN Headquarters liquidation team for appropriate action.

23. Also included in the receivable balances was an amount of \$18,872 related to the United Nations Office for Project Services (UNOPS). The balance was incurred with respect to telephone charges, and \$4,204 related to periods prior to 2003. During November 2003, the Mission forwarded another memorandum to UNOPS requesting settlement of the charges. As yet, no reply has been received.

24. OIOS' review also found that the Mission had not recorded in the IMB account a receivable amount of \$8,894 with the United Nations Iraq-Kuwait Observation Mission (UNIKOM) with respect to various charges paid by UNOHCI on behalf of UNIKOM since 2002. During November 2003, upon OIOS' advice, the Mission recorded the receivable and settled the balance with UNIKOM.

## Vendors

25. The receivable from vendors included an advance of \$31,215 to the Iraq-based contractor Al-Finjan, for which the background and the related OIOS audit recommendation were previously reported in AF2003/21/4. The Value Added Tax (VAT) refundable from the Ministry of Finance in Cyprus represents the remaining balance of \$46,835, and the United Nations Peacekeeping Force in Cyprus (UNFICYP) usually assists the Mission with recoveries of this nature. However, no action has yet been taken to request UNFICYP assistance in this matter.

### **Recommendations 5 - 10**

UNOHCI should:

- (i) Recover outstanding staff members' accounts receivable during the field liquidation in order to minimize the recovery actions required at UN Headquarters (AF03/21/5/005);
- (ii) Reverse the amount of \$332,400 from the "Inter-Office Billing" account and properly charge it to the "Remittance from HQ" account (AF03/21/5/006);
- (iii) Request UN Headquarters for an additional remittance of \$96,731 to cover the expenditures incurred on behalf of the OSRSG in Iraq (AF03/21/5/007);
- (iv) Separately disclose the accounts receivable and payable balances related to the UNDP (AF03/21/5/008);
- (v) Prepare comprehensive files on the UNDP and UNOPS recovery cases to be forwarded to the UN Headquarters liquidation team for appropriate action. The support documentation should include outstanding debit advices, invoices, and all related correspondence since 1999 (AF03/21/5/009); and
- (vi) Immediately request UNFICYP for assistance to recover the VAT refundable balance from the Cyprus Ministry of Finance (AF03/21/5/010).



## E. Accounts Payable

26. As of 31 October 2003, the UNOHCI trial balance showed a total of \$286,221 for accounts payable, as follows:

**TABLE 3: Accounts Payable Balances**

<u>Accounts Payable</u>	<u>Balance as of</u> <u>31 August 2003</u>	<u>Balance as of</u> <u>30 September 2003</u>	<u>Balance as of</u> <u>31 October 2003</u>
Staff members	\$181,831	\$222,406	\$170,902
UN agencies & Missions	\$119,134	\$51,693	\$84,566
Vendors	\$146,767	\$28,514	\$24,229
Other	\$6,524	\$6,524	\$6,524
<b>TOTAL</b>	<b>\$454,256</b>	<b>\$309,137</b>	<b>\$286,221</b>

### Staff members

27. OIOS' review indicated that the payables to staff members mainly referred to one of the four categories below: (i) UNAMI staff members; (ii) voluntary accumulated credits of local staff members on TDY in Cyprus; (iii) uncollected cheques or returned bank transfers; and (iv) unsettled balances in respect of staff members deceased during the August blast. OIOS is of the opinion that the Mission should address and conclude all outstanding payable balances to the staff members prior to the closing of the "Sun System" field accounts and subsequent turnover to the UN Headquarters liquidation team.

### UN agencies and missions

28. The largest balance of \$48,229 is represented by the United Nations Guards Contingent in Iraq (UNGCI). OIOS' review noted that out of the total balance, an amount of \$41,655 representing ration expenses should have been cleared from the payable accounts. The amount was disbursed through the UNGCI imprest account even though the ration expenses should have been charged to UNOHCI. The Mission subsequently reversed the amount from the UNGCI expenditure accounts, but failed to clear the corresponding payable amount to UNGCI.

29. The Mission had not recorded in the IMB account an amount of \$45,707 payable to UNIKOM with respect to various charges paid on behalf of the Mission since 2002. During November 2003, upon OIOS' advice, the Mission subsequently recorded the payable balance and settled the UNIKOM debit advices. However, since the Mission failed to record valid liabilities, OIOS is of the opinion that there is a risk that other charges might not be captured in the accounts.



Consequently, all peacekeeping missions and UN agencies should be requested to review and confirm their outstanding balances with the Mission. Furthermore, as referred in the paragraph 21 above, payable balances to UN agencies did not include an amount of \$36,932 with respect to payments made on behalf of the Mission by UNDP Kuwait.

#### Vendors

30. Accounts payable to vendors included an amount of \$12,000 with Estate Electricity Establishment, representing payments on behalf of UNIKOM for the electricity supply during the month of August 2002. The amount remained recorded as payable because the Mission failed to pay the supplier although UNIKOM fully settled the UNOHCI Debit Advice in October 2002.

31. OIOS' review also noted that the accounts payable to vendors incorrectly included an amount of \$4,590 with respect to the G.Est.Telecom &Post. The original amount was recorded in 2001 with respect to telephone bill invoices, but the related cheques were returned and subsequently voided. The supplier added the charges to the next invoices, and although the Mission settled these invoices in 2001, it failed to reverse the credit recorded in the accounts payable. Similarly, an amount of \$1,755 with respect to Middle East Communication was wrongly included in the accounts payable as of 31 October 2003. The related invoice had been settled and the supplier eventually paid, but the credit charge wrongly remained outstanding because of an oversight. Although the amounts of the errors appear immaterial, the auditors are concerned that there could be several other errors that were not detected by the audit. Therefore, in addition to expeditiously correcting the errors, the accounts should be closely supervised.

32. An amount of \$3,638 with respect to the supplier "Trading Force" remained recorded in the accounts payable as a result of a returned bank transfer in September 2002. Even though the supplier did not claim the amount, the Mission did not endeavor to clear the liability.

#### Other Accounts Payable

33. Two uncollected cheques amounting to \$1,250 remained outstanding since October 2002 and should have been transferred to the "Miscellaneous Income" Account. The remaining balance of \$5,174 represented liabilities to United Nations agencies regarding deposits paid during 1998/99 for communication facilities. As of 31 October 2003, only the Red Cross claimed the deposit of \$300 and it was subsequently reimbursed.

### **Recommendations 11 - 16**

UNOHCI should:

- (i) Clear outstanding staff members' accounts payable during the field liquidation in order to minimize the recovery actions required at UN

Headquarters (AF03/21/5/011);

(ii) Immediately clear the payable balance to the United Nations Guards Contingent in Iraq (AF03/21/5/012);

(iii) Request all peacekeeping missions and UN agencies to review and confirm their outstanding balances with the Mission (AF03/21/5/013);

(iv) Settle the payable balance to the vendors "Estate Electricity Establishment" and "Trading Force" (AF03/21/5/014);

(v) Immediately adjust the errors regarding the payable balances to G.Est.Telecom &Post and Middle East Communication (AF03/21/5/015); and

(vi) Transfer two uncollected cheques amounting to \$1,250 to the "Miscellaneous Income" Account (AF03/21/5/016).

#### **F. Outstanding Obligations**

34. During August-October 2003, there have been notable reductions in the outstanding obligations. While the auditors appreciate the progress made, there is still a need to clear old obligations. The comparative position of the outstanding obligations is as follows:

**TABLE 4: Outstanding Obligations by Month**

<b>Description</b>	<b>Balance as of 31 August 2003</b>	<b>Balance as of 30 September 2003</b>	<b>Balance as of 31 October 2003</b>
Outstanding Obligations	\$2,036,418	\$1,928,950	\$1,357,185

35. On 29 September 2003, as part of the Mission's financial liquidation, the CAO provided an "outstanding obligations" breakdown and requested the certifying officers to determine the validity of their respective obligations. Even though the auditors determined that the provided breakdown was incomplete, the certifying officers' review achieved a 30 percent reduction, mainly due to the closing of the outstanding procurement orders.

36. The auditors reviewed personnel-related obligations totalling \$230,000 and identified various internal control shortcomings, indicating inadequate supervision within the Mission's Personnel Section, as well as a lack of coordination between the Finance and Personnel Sections. Travel-related obligations outstanding for more than one year were still reported in UNOHCI's accounts as of 31

October 2003. Financial Rule 110.9 provides that obligations no longer valid shall be cancelled forthwith and the resulting credit surrendered. If the obligation is determined to be valid, it should be re-obligated against the appropriations of the current financial period. While it is clear that these obligations were not unduly past due, they were nonetheless no longer valid since the travels had been completed.

37. The audit sample review noted the following: (i) multiple travel authorizations issued to cover the same travel itinerary; (ii) authorizations issued on a post-facto basis - one of them after two years, after the staff member's separation; (iii) obligation of funds under a different account code; and (iv) missing travel authorizations from both the Personnel and Finance files. Furthermore, the travel claims were not systematically settled against the travel authorizations. For example, various instances were noted where claims had been settled and travel advances cleared, but the related obligations remained outstanding.

38. The audit sample review of the personnel-related obligations also noted that there were two staff members bearing multiple index numbers, namely nos. 221230 and 060899 for one staff member, and nos. 614391, 613291 and 448825 for the second. Since the first staff member had accounting records maintained under both index numbers, OIOS is of the opinion that these represent serious breaches of internal control that should have been previously detected and corrected by the Mission's Personnel Section.

#### **Recommendation 17**

UNOHCI should take appropriate action to clear the outstanding obligations during the field liquidation (AF03/21/5/17).

#### **G. Check Out Procedures**

39. The Mission had an internal policy to retain \$500 from departing staff members and account for it as a "reserve" against residual personal expenses. Since UNOHCI ceased operations as of 21 November 2003, the systems in place could have been more effectively used to establish the staff members' expenses and adjustments to their final pay. Specific steps should have included the enforcement of "check out" procedures whereby accounts receivable were recovered from personnel prior to their departure.

40. The auditors' review noted that 17 staff members separated during August-September 2003 without undergoing the check out procedures. Furthermore, the sample review of 20 staff members separated during October 2003 revealed that nine had undergone an incomplete check out, while three departed without any check out procedures. OIOS is of the opinion that the Personnel Section should have enforced the check out procedures while coordinating with the Mission's other sections to ensure that all pending personnel matters were finalized before separation.

### **III. ACKNOWLEDGEMENT**

41. I take this opportunity to thank the management and staff of UNOHCI for the assistance and cooperation provided to the auditors in connection with this audit segment.

Copy to:

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